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Standing Committee on Developing Services Sectors: Fostering Competitive Services Sectors in Developing Countries: INSURANCE
Second session
Geneva, 4 July 1994
Agenda item 8

[INSURANCE]

DRAFT REPORT OF THE STANDING COMMITTEE ON DEVELOPING SERVICES SECTORS: FOSTERING COMPETITIVE SERVICES SECTORS IN DEVELOPING COUNTRIES: INSURANCE ON ITS SECOND SESSION

Held at the Palais des Nations, Geneva,
from 4 to 8 July 1994

Rapporteur: Mr. Sikiru Ogunsola (Nigeria)

CONTENTS

Chapter		Paragraphs
	Introduction	1 - 13
I.	Review of developments in the insurance market Review of progress made on the work programme Consideration of specific items of the work programme	14 - 32
II.	Organizational matters	33 - 36

Note for Delegations

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INTRODUCTION

1. The Standing Committee on Developing Services Sectors: Fostering Competitive Services Sectors in Developing Countries: Insurance held its second session at the Palais des Nations, Geneva, from 4 to 8 July 1994.

2. In the course of its session, the Standing Committee held ... formal plenary meetings and ... informal meetings.

Opening statements

3. The Chairman said that the heterogeneous composition of the Standing Committee, incorporating representatives of government, regulatory authorities and business, would contribute to the outcome of the Committee's second session on insurance. The task of the meeting was to determine future action on issues on the agenda and on the work programme of the Committee.

4. Since risk was an inevitable part of all human endeavours, insurance, as a risk transfer mechanism, was indispensable for full-fledged socio-economic activity. Lack of insurance led to stunted growth rates and slow development.

5. The insurance sector was undergoing change in many developing countries, prompted by liberalization and privatization reform programmes. Without appropriate regulatory reforms, however, the benefits of liberalization could be lost. He drew attention to the largely unexplored sector of agricultural insurance and its potential for expanding insurance, while also bringing greater stability to the rural economy. He also expected heated debate on insurance for natural disasters and other catastrophes.

6. The Officer-in-Charge of UNCTAD said that insurance was an important factor when discussing and determining policy in respect of international trade in services, long-term development and environment matters. While the insurance industry in developing countries had shown resilience in the past, it could not afford not to explore other clienteles and markets, in particular in the rural and agricultural sector.

7. Economic reforms based on privatization and liberalization were affecting the insurance sector in developing countries, and while these changes would inevitably mean more dynamic insurance markets with better development prospects, they would also require improvements in each country's insurance regulation and supervision. Developing countries had to decide whether a privatized and liberalized insurance market would continue to fulfill a number of social objectives, besides providing insurance services.

8. Catastrophic losses caused by the perils of the natural environment could impede the development prospects of a whole country. The Committee must provide policy direction on how to remedy the low prevalence of catastrophe insurance in developing countries. Still in the field of environment, he drew attention to the possibility of using environmental impairment liability insurance to internalize environmental costs. In concluding, he said that the goal of the session was to focus the Committee's work for the period up to the next session.

9. The Chief of the Insurance Programme said that the conclusion of the Uruguay Round had placed insurance firmly on the international agenda and that this presented an opportunity for the role of insurance and its contribution to development to be more widely acknowledged.

10. The series of natural disasters since 1970 accounted for the bulk of insured losses. Together with environmental impairments, they posed a formidable challenge, not only to the insurance sector but also to Governments to introduce more stringent measures in respect of risk prevention and reduction. While a number of arrangements such as pools or disaster funds had been discussed, a final solution had not yet been found, but it was evident that the insurance sector's experience and knowledge would contribute to possible solutions.

11. The liberalization and globalization of insurance held promises and challenges for all markets, but in developing markets Governments must strike a balance between the legitimate expectations of their producers and consumers in terms of efficient and affordable services and the long-term interests of the country in terms of a viable domestic insurance industry.

12. The area of agricultural insurance, which had important development dimensions, provided potential for developing countries' insurers to enlarge their operations in an area where they enjoyed a domestic advantage over foreign competitors.

13. Finally, privatization and liberalization depended on a congruent framework of rules ensuring that competitive forces operated with fairness and to the benefit of all members of society. Adapting the regulatory framework to the new conditions was insufficient without strong institutions for enforcement.

Chapter I

REVIEW OF DEVELOPMENTS IN THE INSURANCE MARKET

REVIEW OF PROGRESS MADE ON THE WORK PROGRAMME

CONSIDERATION OF SPECIFIC ITEMS OF THE WORK PROGRAMME

(Agenda items 3, 4 and 5)

General statements

14. The representative of India said that the new economic environment had contributed to a reappraisal of policy frameworks and had had a significant impact on insurance, in particular through liberalization and the consequent internationalization of trade in services. The implementation of such reforms required the evolution of a broad national consensus, and differences between several interest groups had to be reconciled.

15. As 70 per cent of India's population lived in rural areas, agricultural and rural insurance was of great importance. Experience in India indicated that certain covers were commercially viable and showed potential, while others consistently produced losses. Improving existing schemes required sharing experience in techniques and strategies with developing countries.

16. Another important issue was the development of human resources, and in that connection he offered his country's insurance training facilities to all developing member countries.

17. Concerning regulation and supervision, without reforms in the regulatory mechanism, the benefit of liberalization could be lost. Assistance in such reforms should be organised within a multilateral framework and should encompass support for developing countries in drafting legislation and setting up and strengthening insurance authorities.

18. The spokesman for the European Union (Germany) said that the main task of the Standing Committee was to analyse prospects for developing and strengthening the insurance sectors of developing countries and enhancing their trade in this field and that the countries of the European Union were fully determined to contribute to this process in the spirit of Cartagena.

19. Agricultural insurance in developing countries, a "largely untried" area, deserved special attention for the obvious reason that in most developing countries uninsured farmers were the backbone of the economy but also an element of potentially great instability, and they were mostly denied access to credit facilities except on usury terms. Awareness-building thus had to be complemented by capacity-building. The UNCTAD secretariat had rightly pointed out that cooperative organizations could play a much larger role here. Cooperatives had traditionally had a very important role to play in agricultural modernization, and numerous cooperation project with developing countries existed at the grassroots level. The member States of the European Union were committed to strengthening and integrating technical assistance in UNCTAD's work, as called for in the Cartagena Commitment.

20. Insurance for large risks in developing countries held enormous potential for the future and dovetailed with efforts aimed at risk prevention and raising of safety standards. UNCTAD was a member of the Steering Committee of the International Decade on Natural Disaster Reduction, which had been launched in 1989 and where large reinsurance companies played an important part. He felt that the subject of alternative mechanisms for large risks, environmental impairments and catastrophes deserved still greater attention by UNCTAD. While recognizing budgetary constraints, the European Union would like to see more of UNCTAD's work concentrating on this cross-cutting issue, which appeared to be closely linked to sustainable development. The European Union had always stressed the important role UNCTAD could and should play within the framework of Agenda 21, and the UNCTAD secretariat was encouraged to explore this new and challenging field further. The proposal to provide more country-specific research, as outlined in document TD/B/CN.4/31, was expected to find support from the European Union.

21. The representative of the Commission of the European Union said that the statistical review for 1983-1990 (UNCTAD/SDD/INS/5) filled an important gap, as other such surveys excluded some 50 countries, many of which were amongst the poorest and were not included in other data sources. The review of developments for 1989-1993 (UNCTAD/SDD/INS/2/REV.1) was an important source of information, and

its publication should be continued. The document on regulations and supervision (UNCTAD/SDD/INS/6) showed clearly what had to be done by a regulator's department to achieve the most efficient market conditions and ensure policy-holder protection.

22. One of the most important documents prepared by the secretariat related to privatisation and liberalisation (UNCTAD/SDD/INS/3/REV.1). Certain countries of the European Union had had experience with privatization and the dismantling of State monopolies, and the European Union was providing technical assistance in this area to countries in Central and Eastern Europe and countries of the former Soviet Union via the two programmes PHARE and TACIS. The experience gained confirmed that a market would only be free and secure for both companies and policy-holders if it was well regulated. Freedom of access ensured that risks could be well spread and allowed local markets to benefit from the strength and expertise of international insurers.

23. The extent to which liberalization could be pursued might be limited by the degree of each country's development. The European Union supported the suggestion to organise a three-day seminar for developing countries before the third meeting of the Standing Committee.

24. The important work completed on agricultural insurance (UNCTAD/B/CN.4/30) included some new and interesting ideas. For the technical assistance projects which it was hoped to launch, a pragmatic approach was recommended.

25. With regard to documentation, he felt that it was important for the documents of the Standing Committee to be adequately distributed to insurers in developing countries, Ministries of Finance and professional associations.

26. Finally, he repeated his observation of February 1993 that the human and financial resources of the insurance programme were insufficient to complete the tasks assigned to it within a three-year period.

27. The spokesperson for the Asian Group (Singapore), referring to agenda item 3, said that, in recent years, a number of Asian countries had paid a heavy toll in terms of natural catastrophes, with much of the damage uninsured. National and international reinsurers should help exposed countries to put into place suitable arrangements for catastrophe insurance. The Standing Committee was a suitable place for such analyses and exchanges of views and experience in that connection.

28. On agenda item 4, regarding privatization and liberalization of the insurance sector, it had to be recognized that the sector had a special social role which many foreign insurers would not undertake, and that the need to develop a domestic insurance sector had to be taken into account. The General Agreement on Trade in Services recognized the need to strengthen domestic services capacity and efficiency in developing countries, and also stated that a country was not to be prevented from taking regulatory measures for prudential reasons to secure the stability of its financial and insurance system. Government had to create or maintain an economic environment that stimulated growth of the insurance industry and conditions for local insurers that equalled those of their competitors.

29. On insurance regulation and supervision, many Asian countries were pursuing privatization and liberalization policies, but the benefits of such policies might not be realized without clear regulations and effective supervision. The Asian group was therefore supportive of studies that facilitated the adaptation of regulatory and supervisory systems to new market realities.

30. On agenda item 5, in relation to agricultural insurance, the Asian Group agreed that the agricultural production sector should no longer be accorded low priority by insurers. Well devised agricultural insurance policies enabled farmers to take more risks, adopt better technology and use high-quality inputs because they were compensated if events beyond their control occurred. The connection between insurance and rural credit was also very important. In many Asian countries insurance was already requested by rural credit institutions when granting loans to farmers. The insurance and banking sectors were urged to cooperate and to increase the benefits of their services to rural societies.

31. The Asian Group appealed to international and national donors to support technical cooperation in respect of the development and introduction of viable agricultural insurance schemes in developing countries and in particular in the least developed countries. The acquired experience of developing as well as of developed countries should be looked at more closely in follow-up work.

32. The representative of Romania said that the insurance market of his country had recently been liberalized. At present, there were 23 private and joint-venture companies servicing the Romanian market. He also announced the establishment of the National Union of Insurance and Reinsurance Companies of Romania, constituted on 20 June 1994 by 13 companies. The main objective of the Union was to

collaborate and maintain permanent contacts with national and international bodies active in the area of insurance.

Chapter II

ORGANIZATIONAL MATTERS

A. Opening of the session

33. The second session of the Standing Committee on Developing Services Sector: Insurance was opened by Mr. S.V. Mony (India), Chairman of the Standing Committee at its first session.

B. Election of Officers

(Agenda item 1)

34. At the opening plenary meeting of its second session, on 4 July 1994, the Standing Committee elected its bureau as follows:

Chairman:	Mr. Fernando Jaime Moscoso Salmon	(Bolivia)
Vice-Chairmen:	Mrs. Kirsten Mandrup	(Denmark)
	Mr. Jorma Heikkilä	(Finland)
	Mr. Hermes Silva Nobre	(Uruguay)
	Mr. Wayoso Prodjowarsito	(Indonesia)
	Mrs. Capitolina Tourbina	(Russian Federation)
Rapporteur:	Mr. Sikiru Ogunsola	(Nigeria)

C. Adoption of the agenda and organization of work

(Agenda item 2)

35. At the Standing Committee's opening plenary meeting, on 4 July 1994, the Chairman drew the Committee's attention to the fact that, in the conclusions adopted at the resumed second part of its fortieth session on the mid-term review and evaluation of work programmes, the Trade and Development Board had requested intergovernmental bodies to have more focused mandates, as well as more realistic and achievable objectives, and to adhere strictly to existing guidelines on agendas

and documentation. Hence, each agenda should be limited to two substantive items and one item on the review of activities pertaining to the work programme.

36. The Standing Committee then adopted its draft provisional agenda (TD/B/CN.4/29), as follows:

1. Election of officers
2. Adoption of the agenda and organization of work
3. Review of developments in the insurance market
4. Review of progress made on the work programme
5. Consideration of specific items of the work programme:
   (a) Review on critical areas with regard to insurance legislation, regulation and supervision (see item B.1.(a) of the work programme)
   (b) Privatization and liberalization in insurance
   (c) Expanding the insurance sector in agriculture and rural insurance
   (d) Exchange of experiences on creditor insurance
   (e) Reinsurance (see items B.1.(c) and B.2. of the work programme)
6. Provisional agenda for the third session of the Standing Committee, Insurance
7. Other business
8. Adoption of the report of the Standing Committee, Insurance, to the Trade and Development Board.

D. Provisional agenda for the third session of the Standing Committee, insurance

(Agenda item 6)

[To be completed]

E. Other business

[To be completed, as appropriate]

F. Adoption of the report of the Standing Committee, Insurance, to the Trade and Development Board

[To be completed]

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TRADE AND DEVELOPMENT BOARD
~~Standing Committee on Developing~~
Services Sectors: Fostering
Competitive Services Sectors in
Developing Countries; INSURANCE
Second session
Geneva, 4 July 1994
Agenda items 3, 4 and 5

Draft recommendations of the Standing Committee on Developing Services Sectors: Fostering Competitive Services Sectors in Developing Countries: INSURANCE

1. After fruitful discussion and a wide exchange of experiences, the Standing Committee (Insurance) expresses its appreciation concerning the quality of the studies presented by the UNCTAD secretariat on the agenda items and recommends their wide dissemination. In accordance with the work programme, the Standing Committee agrees on the following:

A. Promoting transparency

2. In order to facilitate further deliberations and work, the Standing Committee requests the UNCTAD secretariat to continue to prepare on an ongoing basis:

- A statistical survey; and
- A review of developments on insurance and reinsurance operations in developing countries and countries in transition.

B. Fostering competitive insurance services

3. The Standing Committee requests member countries to make available to the secretariat comments on the study on privatization and liberalization at their earliest convenience in order that they may be reflected in the revised version. The Standing Committee requests that the revised version be made available in all the languages.

4. In view of the immediate relevance and recognizing the importance for developing countries and countries in transition in the process of liberalizing and privatizing their insurance markets to establish effective regulatory and supervisory systems, the Standing Committee agrees to give high priority to this area in its future work. It therefore requests the UNCTAD secretariat to prepare a study particularly focusing on prudential regulation and insurance consumer protection. To promote exchange of views in this matter, the Standing Committed requests the secretariat to arrange a meeting open to the participation of all countries, in particular developing countries and countries in transition, to discuss their experience in liberalization and privatization of insurance markets.

5. The Standing Committee, aware of limitations in available resources and time constraints, suggests that the secretariat investigate ways and means to develop creditor insurance (i.e. default in the repayment of a loan in respect of certain undefined contingencies) for the benefit of small and medium-size enterprises in developing countries and encourages an exchange on this issue.

Catastrophe insurance

6. The Standing Committee affirms that the study of catastrophes, environmental impairment and large risks should be continued and that the secretariat should make itself aware of and participate fully in the consideration being given to this matter in other fora.

7. The Standing Committee agrees with the views expressed in the UNCTAD secretariat's study that a significant contributing factor to the less than adequate levels of catastrophe insurance cover available in many developing countries may be the absence of adequate information on aggregate exposures both in respect of assets at risk and perils capable of causing catastrophes.

8. On problems faced by developing countries and countries in transition in the area of insurance against catastrophe perils, the secretariat may:

(a) Prepare a compilation and analysis of existing catastrophe insurance schemes based on information provided by member countries;

(b) Assist countries in collecting comprehensive data on catastrophe (insured) exposures in each country preceded by a preliminary test survey in 10 countries with a view to collating them and enabling insurers and reinsurers to have a better understanding of the

problems.

Environmental impairment

9. The Standing Committee recognizes the need for an exploratory study on the role of insurance relating to environmental impairment. The Standing Committee is of the view that such a study should pay attention to the risk management aspect and damage limitation and take into account the fact that economic and social development and poverty eradication are priorities of developing countries.

Agricultural insurance

10. The Standing Committee agrees to the following conclusions concerning agenda item 5(c), "Expanding the insurance sector in agricultural and rural insurance":

(a) The Standing Committee appreciates the contribution to the subject made by the secretariat through the synthesis of the different aspects of agricultural and rural insurance. The Committee agrees that work on agricultural and rural insurance should be pursued. In this context, a background note should be prepared which examines experiences and initiatives of countries in this field, with particular emphasis on the financial implications of agricultural insurance;

(b) It is the Committee's view that the UNCTAD secretariat's studies on this issue should be followed up through the implementation of technical cooperation programmes. Such programmes should address a particular country's needs in terms of specific agricultural risks.

C. Strengthening technical cooperation and human resources development

11. The Standing Committee requests the UNCTAD secretariat to examine the possibilities to expand existing or establish new training programmes, including agricultural insurance, insurance regulation and supervision, and life insurance. In view of the importance of insurance to the development process, the Standing Committee would greatly appreciate support by potential donors as a matter of priority to support such projects.

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Developing Countries; INSURANCE
Second session
Geneva, 4 July 1994
Agenda item 6

PROVISIONAL AGENDA FOR THE THIRD SESSION OF THE STANDING COMMITTEE

Draft provisional agenda

1. Election of officers

2. Adoption of the agenda and organization of work

3. Review of critical areas with regard to insurance legislation, regulation and supervision

4. Problems faced by developing countries and countries in transition in the area of insurance against catastrophe perils

5. Review of progress made on the work programme

6. Provisional agenda for the provisional fourth session of the Standing Committee, Insurance

7. Other business

8. Adoption of the report of the Standing Committee, Insurance, to the Trade and Development Board.

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~~TRADE AND DEVELOPMENT BOARD~~ ~~[SHIPPING]~~

Standing Committee on Developing
Services Sectors: Fostering Competitive
Services Sectors in Developing Countries:
SHIPPING
Second session
Geneva, 11 July 1994
Agenda item 8

DRAFT REPORT OF THE STANDING COMMITTEE ON DEVELOPING SERVICES SECTORS: FOSTERING COMPETITIVE SERVICES SECTORS IN DEVELOPING COUNTRIES - SHIPPING ON ITS SECOND SESSION

Rapporteur: Mr. Hermann Aschentrupp (Mexico)

INTRODUCTION - AGENDA ITEMS 3, 4, 5 AND ORGANIZATIONAL MATTERS

Speakers:

Mr. Fortin	Germany (for European Union)
Mr. Vogel	Commission of European Communities
Brazil	CMI
Uruguay	IUMI
Poland	Sri Lanka (Asian Group)
Russian Federation	Nigeria (African Group)

Note for Delegations

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INTRODUCTION

1. The Standing Committee on Developing Services Sectors: Fostering Competitive Services Sectors in Developing Countries - Shipping, established in accordance with paragraphs 70 and 72 of the Cartagena Commitment, held its second session at the Palais des Nations, Geneva, from 11 to 15 July 1994. In the course of the session, the Standing Committee held ..... plenary meetings. */

Opening statement

2. The Officer-in-charge of UNCTAD highlighted the particular importance of this session of the Standing Committee at a time when the shipping industries of developed and developing countries were experiencing profound changes that were reflected in operational practices and in policy approaches. Maritime transport remained one of the most important elements in the development of international trade, particularly for developing countries that depended more heavily on interregional trade. Also, shipping was an important element of trade in services, providing an essential mechanism for attaining sustainable development. Gradual relaxation of market access restrictions was probably the most important policy change and challenge facing the shipping industry of many developing countries and countries in transition.

3. For many countries, the decision to liberalize trade in shipping services might pose problems, particularly for those countries that had exercised a strong governmental influence in shipping for several decades. The conflict between liberalism and interventionism in maritime affairs was not always easy to resolve. A number of countries, particularly developing ones, had expressed concern that certain forms of liberalization might be too disruptive and could lead to the disappearance of national shipping. These fears needed to be addressed and, if possible allayed. The answer to such problems, however, could not lie in maintaining traditional restrictive policy approaches. Developing countries and countries in transition that attached importance to the maintenance of a national fleet must be provided with the necessary tools to implement a gradual and phased policy of liberalization and to give the necessary support to the national shipping industry. This approach would enable national fleets to provide competitive services and allow them to play their role as a catalyst of trade.

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*/ For the terms of reference of the Standing Committee, see Trade and Development Board decision 398 (XXXVIII), annex B.

4. Referring to the importance of multimodal transport in the development of more efficient transport chains and its contribution to a more widespread use of the latest advances in information technology and in corporate decision-making, he

emphasized that the development of multimodal transport was often inhibited by the lack of a harmonized international legal environment and of national multimodal transport regulations, and by the use of outmoded documentary procedures and trading terms. Multimodal transport could also make an important contribution to the development of ecologically sound transport systems. For example, energy-efficient transport modes of short-sea and coastal shipping, as well as river or lake transport, offered alternatives.

5. As for ports, the expansion and increased pace of world trade would place ports under intense pressure to expand facilities and improve services while reducing costs. The concentration of power in the hands of mega-shippers and carriers was a growing threat to ports, as routing changes could significantly change cargo volumes. Environmental concerns could also affect ports. At its meeting in October 1993, the Intergovernmental Group of Experts on Ports had examined the factors which could contribute to efficient management and sustainable development of ports and related port services, including issues relating to privatization, commercialization and liberalization.

6. On the specific issue of maritime legislation, he said that the adoption of the International Convention on Maritime Liens and Mortgages, 1993, was seen as a significant contribution towards the unification of international maritime law and the improvement of conditions for ship financing. It marked an important step in cooperation between UNCTAD and IMO. A further opportunity for cooperation was envisaged in the reconvening of the Joint UNCTAD/IMO Intergovernmental Group in Geneva in December 1994, following the resolution adopted by the Conference to consider the possible review of the 1952 Convention on Arrest of Ships.

7. Finally, with regard to technical assistance and in particular training and human resource development as tools of development policy, he said that UNCTAD was devoting special attention to the reinforcement of management training capacity and regional cooperation through the TRAINMAR programme. The TRAINMAR network already spread across Africa, Asia and Latin America. The participation of institutions in industrialized countries of Europe had recently been reinforced and steps were being taken to enhance cooperation in various countries of Eastern Europe.

Chapter I

COMPETITIVE COMPETITION SHIPPING SERVICES (IMPACT OF PROGRESSIVE LIBERALIZATION ON THE DEVELOPMENT OF SHIPPING SERVICES)
(Agenda item 3)

REPORTS OF ANY SUBSIDIARY BODIES WHICH MAY HAVE BEEN CREATED
(Agenda item 4)

and

REVIEW OF ACTIVITIES OF THE SECRETARIAT PERTAINING TO THE WORK PROGRAMME
(Agenda item 5)

8. For its consideration of these agenda items, the Standing Committee had before it the following documents:

Item 3

"Progressive liberalization and the development of shipping services in developing countries" - report by the UNCTAD secretariat (TD/B/CN.4/34).

Item 4

"Report of the Intergovernmental Group of Experts on Ports" (25-29 October 1993) (TD/B/CN.R/28 - TD/B/CN.4/GE.1/4)

"Intergovernmental Group of Experts on Ports" - note by the UNCTAD secretariat (TD/B/CN.4/35).

Item 5

"Review of activities of the secretariat pertaining to the work programme" - progress report by the UNCTAD secretariat (TD/B/CN.4/36).

9. Introducing the documentation on these items, the **Deputy Director of the Services Development and Trade Efficiency Division** said that, under agenda item 3, document TD/B/CN.4/34 outlined the motivation for shipping policy reforms including liberalization in the 1980s and 1990s, gave selected examples of shipping policy reforms in developing countries and analysed possible consequences for service quality and the participation of national carriers. The report was intended to: (i) provide a basis for governments and other institutions to discuss and make decisions concerning the formulation and implementation of policies fostering

competitive shipping services; (ii) present recommendations for institutional reform, including the restructuring of organizations dealing with the promotion of national merchant fleets; and (iii) be a means to implement support for consumers of shipping services. In addition to policy measures, the secretariat made special efforts to assist developing countries to adjust their institutional infrastructure to changing industry and market requirements, since most developing countries were primarily users rather than providers of shipping services. Special attention was paid to the restructuring of shippers' councils and their conversion from public sector agencies dealing with the implementation of shipping policy to professional associations exclusively dedicated to the protection of shippers' interests.

10. Under agenda item 4, he observed that the Intergovernmental Group of Experts on Ports held in October 1993, with representatives of governments and industry, had generated concrete, practical and innovative discussions on the efficient management and sustainable development of ports and related port services in order to foster competitive maritime transport services and to strengthen capacities for trade. The conclusions and recommendations of these discussions were set forth in TD/B/CN.4/28. After consideration of the report of the Group of Experts, the Committee would be invited to endorse the recommendations.

11. Turning to the work programme (agenda item 5), he made the following observations:

(a) The annual Review of Maritime Transport, in addition to its global overview, would also include an analysis of specific regional development.

(b) The main thrust of the work programme focused on the competitiveness of developing countries' carriers and their ability to participate effectively in the international shipping sector. To support this objective, UNCTAD proposed to convene in 1995 a shipping industry Forum on Fostering Competitive Maritime Transport Services in Developing Countries. This would provide an opportunity for both shippers and carriers to express their views on the role of developing countries in providing competitive maritime transport services. It was proposed that this Forum be held back-to-back with the next session of the Standing Committee, since this would allow private sector representatives to participate in the Committee and would thus improve the dialogue between the industry, governments and public institutions.

(c) With the accession of Spain to the United Nations Convention on a Code of Conduct for Liner Conferences, the number of Contracting Parties to the Code now stood at 77. Furthermore, Mr. Yusuf Kalindaga of the United Republic of Tanzania had been appointed Registrar of the Convention and preparations for the second Review Conference of the Code were expected to commence shortly.

(d) In the field of multimodal transport, the secretariat was suggesting the establishment of an intergovernmental group of experts on multimodal transport. The group would assess new developments in multimodal transport and containerization and the impact on trading opportunities. The work would be set in the context of liberalization and privatization policies and involve the potential impact on transport infrastructure and investment requirements.

(e) Document TD/B/CN.4/36 reported on the UN/IMO Conference of Plenipotentiaries on a Convention on Maritime Liens and Mortgages and the adoption of the International Convention on Maritime Liens and Mortgages, 1993. This document also reported on the reconvening of the Joint UNCTAD/IMO Intergovernmental Group of Experts in December 1994, to examine the possible review of the 1952 Convention on the Arrest of Ships. A separate background document entitled "The place of general average in marine insurance today" (UNCTAD/SDD/LEG/1) dealt with general information and statistics concerning the operation of general average. The document put forward proposals for simplification of general average which had emerged from consultations with members of the insurance industry and other relevant international organizations.

(f) In the area of sustainable development, UNCTAD had been requested by IMO to cooperate in the development of a proposal for the creation of a fund to facilitate the construction of waste reception facilities in ports as required by the MARPOL Convention. The aim was to elaborate an economic instrument to provide the finance for these facilities. The question of waste reception facilities would be taken up by the Working Group on ship/port interface in October 1994 and the IMO Council expected an operational proposal to be made in time for the next Council in June 1995. The Standing Committee might wish to comment on this.

(g) The TRAINMAR programme was described in UNCTAD/SDD/TRN/1. The report stated that there were now more than 50 local institutes participating in the programme, organized in eight regional networks.

(h) Finally, it was reported that the Advance Cargo Information System had been installed in an increasing number of countries, especially in Africa. Further requests for its introduction had been received from countries in both Latin America and Asia. He expressed the deep appreciation of UNCTAD to donors, especially the European Union, the Governments of France and Germany and the World Bank, for their generous financial support for this endeavour.

12. Referring to the document on fostering competitive shipping services (TD/B/CN.4/34), the representative of **Brazil** observed that the report was not intended to promote liberalization but to evaluate it, duly analysing its advantages and disadvantages. Countries needed to be certain of the benefits and costs involved, prior to the adoption of any liberalization process. He felt that the report should have emphasized the policy of maritime subsidies practised by leading maritime countries which claimed to be liberal but, in fact, subsidized their merchant marine. Furthermore, some forms of aid to certain sectors of the economy were aimed at cross-subsidizing other sectors. Any protection given to maritime transport reduced the flow of commerce and, in the long run, might affect users, shipping companies, labour, etc. Protectionism also reduced the shipowner's motivation to become more competitive.

13. Although liberalization, deregulation, and privatization in transportation was a world trend, even in developing countries, he considered that the progressive reduction of protection to maritime activities should be counterbalanced by the creation of operational conditions that enabled shipping companies to become competitive. Shipping companies must be given sufficient time to adapt since it was not possible to analyse the consequences of instant liberalization. He favoured the gradual liberalization of maritime transport within an overall economic policy that encouraged healthy competition and the beneficial aspects of liberalism.

14. Finally, he stressed the need to update the Code of Conduct on Liner Conferences with a view to ensuring a set of international rules on competition in the field of maritime transport. A new international maritime order was now imperative to secure a fairer share of the international shipping market for developing countries.

15. The representative of **Uruguay** said that, from 11 to 13 April 1994, a preparatory meeting to coordinate merchant marine policies in the Latin American region had been held in Montevideo by the Second Ministerial Conference of

Ministers of Transport, Communications and Public Works of South America. The following issues had been discussed: (i) guidelines on shipping policy to be followed by each country; (ii) an analysis of the shipping policies adopted by developed countries and their impact on Latin American countries; (iii) regional shipping policies; and (iv) the ALADI draft maritime transport agreement and recommendations for a coordinated Latin American shipping policy.

16. At a more recent Ministerial Meeting held in Caracas (29 June to 1 July 1994) recommendations had been agreed to coordinate the shipping policies of Latin American member States. These were: (i) to continue work on free access to maritime traffic with access to the transport of cargoes; (ii) to develop a common definition and implementation of the principle of reciprocity; (iii) to analyse operative conditions that had an impact on the development of merchant fleets in the region; (iv) to review mechanisms to deal with monopolies and restrictive business practices; and (v) to examine requirements to improve the international competitiveness of the regional merchant fleets. As for the draft European Union legislation on anti-trust immunity for consortia, the Ministerial Meeting had expressed its concern over any possible restrictions or limitations to the access of maritime cargoes.

17. The representative of **Poland** observed that the Standing Committee was the only United Nations forum on shipping policy matters. The reports prepared by the secretariat moreover were valuable and topical. More work was needed in the maritime transport sector that could be related to a sustainable development and thus contribute to the fostering of trade. He felt that the secretariat should monitor changes in national policies, make comparative studies on competitive policies, and focus on financing problems. It would also be useful to arrive at an agreed definition of "fair competition".

18. The representative of the **Russian Federation** said that it was necessary to strengthen the role of UNCTAD in the development of economic cooperation in shipping, especially for developing countries and countries in transition. The reports prepared by the secretariat could render real assistance to the users of international shipping. He considered, however, that these documents did not sufficiently take into account the problems that the countries in transition had to face in the course of their reforms. In this context, the Russian Federation strongly supported the need to observe the equal rights of all countries participating in international shipping on the basis of just and fair competition and non-discrimination.

19. The Russian Federation appreciated the results of the Intergovernmental Group of Experts on Ports and welcomed also the elaboration and opening for signature of the International Convention on Maritime Liens and Mortgages. As for the activities in multimodal transport, technological development and containerization, he considered that positive work was being carried out by the secretariat, but believed that the Standing Committee, its subsidiary bodies and the secretariat should focus its attention on the modernization of the transport process on the maritime leg of the logistical chain.

20. The spokesman for the **European Union** (Germany) said that the current session offered an opportunity to evaluate the status of the work programme in shipping, ports and multimodal transport and to focus on issues that remained to be covered until UNCTAD IX. Any new item should be avoided if it could not be accomplished within that period. In the light of the Cartagena Commitment and the decisions of the Trade and Development Board, UNCTAD's mandate was to assist developing countries in the field of maritime transport by reviewing shipping policies and experiences leading to more liberalized and more competitive maritime services. This was necessary because shipping was a central element of global transport that contributed to accelerated development and facilitation of international trade. In this process, there was a need for in-depth analysis and objective assessments.

21. He felt that the secretariat's report (TD/B/CN.4/34) only partly achieved the objectives set in the work programme. Attention should be paid to other substantive elements such as a comparative analysis of the shipping sector and related policies in different countries, and the identification and examination of policies aimed at enhancing cooperation in the maritime field. Commenting on the summary and recommendations of the report, he said that the European Union had considerable difficulties with the secretariat's findings regarding a framework to ensure consultations between lines and transport users and the restructuring of shippers' councils. These problems should be left to professional bodies of the industry. He also questioned the secretariat's approach to devising liberalization mechanisms which might duplicate the work of the new World Trade Organization. As for the second Review Conference of the United Nations Convention on a Code of Conduct for Liner Conferences, he considered that these issues were not related to the programme of work of the Committee and should therefore not be discussed at the current session.

22. On the subject of ports, he welcomed the results of the Intergovernmental Group of Experts on Ports and suggested that further consideration be given to the need to convene a meeting of legal experts on ports.

23. Commenting on the secretariat's progress report on the work programme, he focused on four items. First, he considered that the tasks proposed for a Shipping Industries Forum should be undertaken by the Committee itself. Secondly, he felt that serious consideration should be given to the establishment of a new intergovernmental group of experts on multimodal transport. Thirdly, he had strong reservations on any international agreement within UNCTAD for container standards, because other international organizations provided adequate forums to deal with these issues. Fourthly, he expressed some reservations on the creation of a regulatory framework for multimodal transport operators.

24. In conclusion, he congratulated the secretariat for the work undertaken in the field of human resource development and technical assistance, and he expressed the European Union's continued support for this work.

25. The representative of the **Commission of the European Communities**, commenting on the summary and recommendations in TD/B/CN.4/34, said that freedom of choice for shippers was an essential factor for efficient and competitive shipping services. Moreover, the adverse effect on some shipping companies of policy reform proposals was to be expected because previous protectionist government policies had shielded carriers from the realities of open markets. Therefore commercial success in this new liberal environment would depend, *inter alia*, on quality management, access to capital markets and a service market approach. His suggestions for further action included (i) a report on prevailing ship financing arrangements in meeting the needs of developing countries, to be submitted to the Committee at its third session; (ii) shippers' councils in developing countries should be restructured or created; (iii) existing shippers' councils should become professional as opposed to political organizations; and (iv) the Committee was not the appropriate forum for establishing maritime competition policy to complement the liberalization process. The latter was a particularly questionable task because the secretariat approach might duplicate the work of the WTO.

26. With regard to assistance to developing countries for adjusting their institutional infrastructure to meet changing industry and market conditions, he did not believe that the Committee could provide guidance in the absence of

specific suggestions. Assistance could be provided, however, upon request under matters relating to technical assistance.

27. Commenting on the conclusions and recommendations of the Intergovernmental Group of Experts on Ports, he considered that: (i) a second session of the Intergovernmental Group should be envisaged in view of the unfinished secretariat work; and (ii) there were serious doubts on the need for a legal expert group on port matters.

28. With regard to the review of activities of the secretariat pertaining to the work programme (TD/B/CN.4/36), he made the following points:

(a) The establishment of a Shipping Industry Forum should be viewed with great reluctance;

(b) A second Review Conference on the United Nations Convention on a Code of Conduct for Liner Conferences was not directly related to the work of the Committee;

(c) The work related to multimodal transport and technological development and containerization conformed generally to the work programme of the Committee, but the need for additional activities was not demonstrated;

(d) the need for an intergovernmental group of experts on multimodal transport was open to question and the monitoring of developments in containerization was already sufficient.

29. Finally, he praised the secretariat's work on human resources development and technical cooperation. However, he stressed that technical cooperation activities should emphasize assistance in the identification of weaknesses and capabilities with the objective of making the services sector more competitive.

30. The observer of the **Comité Maritime International** (CMI) said that the CMI International Sub-Committee on the Law of General Average and the York-Antwerp Rules had examined the Rules with a view to making recommendations on the possible need for updating or reviewing the York-Antwerp Rules, 1974 (as amended in 1990). The Rules had systematically been reviewed since they had been established in the late nineteenth century. He said that the trend was towards simplification and it

was recognized that any move to expand the general average system would not be welcome.

31. He commended the excellent atmosphere of objective and committed co-operation between CMI, the UNCTAD secretariat, IUMI and AIDE over the past three-and-a-half years following the commencement of work on general average within UNCTAD. The key organizations concerned had given serious attention to identifying critical issues in the matter of general average. This was exemplified by the work of the UNCTAD secretariat as reflected in the report "The place of general average in marine insurance today" (UNCTAD/SDD/LEG/1), which had already been recognized as having provided a major contribution to the debate. He noted that the draft report prepared by the IUMI Working Group on General Average, and indeed all the work on the subject, had been strongly influenced by the UNCTAD secretariat's report, and it was clear that both reports had injected a strong dose of realism into the current review of general average. The debate was continuing and he trusted that the CMI Conference, due to take place in Sydney, Australia, in October 1994, would, by taking account of all the current research and discussion, produce results to further the efficiency and economic viability of maritime trade.

32. The observer of the **International Union of Marine Insurance** (IUMI) said that his organization was pleased to co-operate with the UNCTAD secretariat in its work on general average in marine insurance today. Following contacts with the UNCTAD secretariat, IUMI had established an Ad Hoc Working Group on General Average, whose preliminary report was taken into account in the UNCTAD secretariat report on the subject. In the meantime, the Working Group and all national associations members of IUMI were working on a detailed questionnaire and were currently collecting data for comprehensive statistics on general average. The collected information would be discussed at the next IUMI Conference in September 1994. Therefore, a comprehensive report by IUMI on general average would be available for submission to the third session of the Committee. IUMI attached special importance to the subject because of its considerable future impact on marine insurance. He felt sure that the existing close cooperation with UNCTAD, CMI and other international organizations would benefit the international community.

33. The spokesman for the **Asian Group** (Sri Lanka) said that his Group attached considerable importance to the related problems of policy reform in shipping, ports and multimodal transport. He noted that the secretariat report (TD/B/CN.4/34) cited the experience of a number of Asian countries with policies of liberalization and privatization. The question of port development was of equal concern to the

Asian Group. Government delegations and representatives of major Asian ports had actively participated in the deliberations of the Intergovernmental Group of Experts on Ports and the Asian Group fully endorsed the recommendations made.

34. Regarding the review of the work programme (item 5), he said that the Asian Group was convinced that economic cooperation among developing countries was necessary to ensure the provision of competitive shipping services by developing countries. With regard to the work programme of the Committee, the Group felt that it was no longer necessary to establish the benefits of cooperation in shipping, ports and multimodal transport because the subject had been covered in a number of past intergovernmental and expert group meetings. Thus, the next stage was to translate theoretical benefits of cooperation into economic and political reality.

35. Of all the developing regions, he said that Asia was the one most directly affected by technological and organizational changes in shipping. Major carriers were active on the east-west trade routes and round-the-world services covering the Far East, South East Asia, South Asia and the Middle East. The services offered by these carriers were a major challenge to Asian shipowners, and the latter had responded variously, either as competitors of or as partners in joint ventures with developed countries' carriers. The Asian Group was keen to promote trade through efficient shipping services and to ensure a fair balance between the interests of the carriers and the shippers.

36. The concept of multimodal transport was gaining increasing importance in the Asian region. While realizing the benefits of the system, the Group was also aware of considerable shortcomings in their national transport sectors and regulatory framework that still impeded optimum development and implementation of door-to-door transport.

37. In the field of training and human resources development, he considered that training was one of the most important tools for ensuring the development of the transport sector and the participation by developing countries therein. New policy developments required new approaches to training and a reconsideration of institutional arrangements and the content of training programmes. Moreover, competitiveness of national shipping services was an objective that could be achieved only with the support of training that involved both the improvement of public education programmes and specific job-related training activities. It was here that the industry, particularly the private sector, was called upon to increase efforts and make available the necessary resources for the implementation

of human resource development activities. The training programmes offered by UNCTAD in the context of TRAINMAR and other projects should form an integral part of these activities and be directed to both public and private sector institutions.

38. The spokesman for the **African Group** (Nigeria) said that developing countries had had very limited experience with liberalization and therefore it would be premature to assume that liberalization was a sound policy in all situations. Consequently, he felt that the Committee should not, at this session, make specific recommendations on the mechanics of liberalization. The secretariat should monitor the impact of liberalization and report its findings to the Committee. He added that liberalization might be contrary to some of the main principles of the United Nations Code of Conduct on Liner Conferences, which should not be undermined by the adoption of liberalization measures. In this connection, shippers' councils varied widely among countries and in some developing countries shippers were constituted by foreign enterprises. In many developing countries, foreign shipping companies already enjoyed free entry and competition through partnerships or joint ventures with local shipping lines.

39. With regard to the question of protectionism, he observed that many developed countries were using various protectionist measures such as shipbuilding subsidies, subsidies for ship operations, or protectionist measures in their external trade. Developing countries in general did not have the capital resources to subsidize their national shipping lines. In some cases, cargo reservation was used as an alternative.

40. In conclusion, he said that developing countries had an interest in developing and maintaining national merchant fleets for national security reasons and for promoting and facilitating foreign trade. The decisions on shipping policy taken in UNCTAD should be taken into account by other bodies such as GATT and World Bank in order to ensure that the principles of fairness and justice are upheld in the dialogue among equal partners.

41. The representative of **Uruguay** said that the secretariat report TD/B/CN.4/34 was only the starting point of an in-depth analysis of liberalization in shipping, since competitive freight rates and the existence of national merchant marines were also important goals. In particular, he expressed the need to analyse the restructuring of shipping business practices that affected free competition and ran counter to equity and transparency.

Chapter II

ORGANIZATIONAL MATTERS

A. Opening of the session

(i) The second session of the Standing Committee on Developing Services Sectors (Shipping) was opened on 11 July 1994 by Mr. Carlos Fortin, Office-in-charge of UNCTAD.

B. Election of officers
(Agenda item 1)

(ii) In accordance with the rules of procedure of the main Committees of the Trade and Development Board and the decision taken by the Board at the first part of its thirty-ninth session, the Standing Committee on Developing Services Sectors (Shipping), at its 5th (opening) meeting on 11 July 1994 and 7th meeting on 12 July 1994, elected the officers to serve on the Bureau of the second session as follows:

Chairman:	Mr. M. Meynet	(France)
Vice-Chairman:	Mr. J. Youmba	(Cameroon)
	Mr. V. Tysyachnikov	(Russian Federation)
	Mr. C. Chaimankong	(Thailand)
	Mr. H. Sismanyazici	(Turkey)
	Mr. U. Perez-Fuertes	(Uruguay)
Rapporteur:	Mr. H. Aschentrupp	(Mexico)

C. Adoption of the agenda and organization of work
(Agenda item 2)

(iii) Also at its opening meeting, the Standing Committee adopted the provisional agenda circulated in TD/B/CN.4/33 and endorsed the suggestions therein for the organization of work. The agenda for the second session therefore read as follows:

1. Election of officers

2. Adoption of the agenda and organization of work

3. Fostering competitive shipping services (Impact of progressive liberalization on the development of shipping services)

4. Reports of any subsidiary bodies which may have been created

5. Review of activities of the secretariat pertaining to the work programme

6. Provisional agenda for the third session of the Standing Committee (Shipping)

7. Other business

8. Adoption of the report of the Standing Committee (Shipping) to the Trade and Development Board.

D. Provisional agenda for the third session of the Standing Committee (Shipping)

(Agenda item 6)

[To be completed]

E. Adoption of the report of the Standing Committee (Shipping) to the Trade and Development Board

(Agenda item 8)

[To be completed]